

FDIC State Profile

Fall 2004

Puerto Rico and the U.S. Virgin Islands

Puerto Rico's job growth moderated in the first half of 2004, while job growth in the U.S. Virgin Islands (USVI) improved but remained slightly negative.

- Puerto Rico's rate of job growth has eased for three consecutive quarters, reflecting declining job growth rates across key industry sectors (See Chart 1). Relative to mainland states, Puerto Rico's second quarter job growth rate ranked among the bottom third of the U.S. Job losses in USVI have eased.

Employment growth has eased across metro areas.

- Employment growth in **San Juan**, the location of two-thirds of Puerto Rico jobs, declined in the second quarter, reflecting losses in construction and manufacturing (See Chart 2). The pharmaceutical sector, which has had several strong years of employment growth, eased in 2004. An improving U.S. economy, however, has resulted in increased tourism, which had a positive effect on the local economy in San Juan. Tourism is expected to contribute \$9 billion to Puerto Rico's total economy in 2004, or 12 percent of the total.
- In **Caguas**, where government represents almost one-quarter of all jobs, several ambitious public housing and construction projects are underway, which should help the area's economy.
- Job growth in **Mayaguez** has been positive and stable. By expanding its gambling and beach facilities, the area's tourism outlook should improve, helping to partially offset manufacturing job losses. Although **Ponce** also has been attempting to promote tourism, its leisure and hospitality employment was down 7.5 percent year-over-year in second quarter 2004.

Tourism, a key driver in USVI, has been slow to recover.

- USVI's rate of job losses improved, but was negative at -0.6 percent. USVI's key employment sectors are government and tourism (and related trade and transportation), which represent 30 and 36 percent of total jobs, respectively. After declining significantly during the 2001 recession, USVI tourism expenditures moderately increased in the second quarter (See Chart 3).

Chart 1: Employment Growth Remained Slightly Positive in Puerto Rico. USVI is Improving.

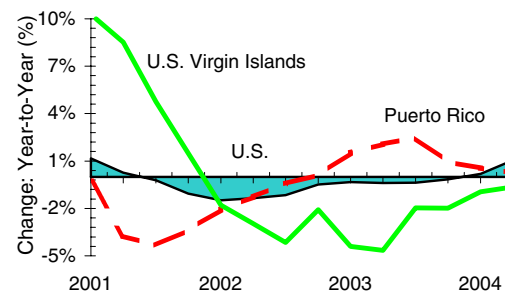


Chart 2: In 2004, Employment Growth Has Dropped in Puerto Rico's Metro Areas

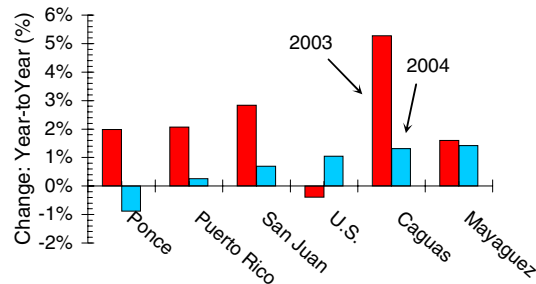
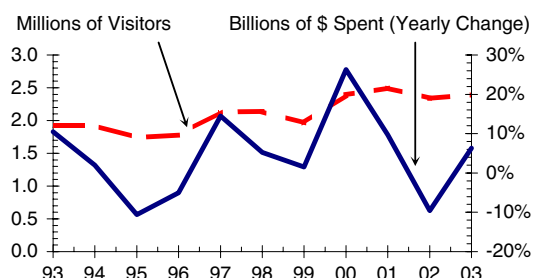


Chart 3: Visitors to the U.S.V.I. Have Been Steady, While Expenditures Have Increased



State Profile

Profitability reported by FDIC-insured institutions headquartered in Puerto Rico and USVI was stable in second quarter 2004.

- Return-on-assets was unchanged in second quarter 2004. Net interest margins were stable as asset yields and funding costs declined.¹

Increase in interest rates will increase bank funding costs in Puerto Rico and USVI.

- Marking the 8th consecutive quarterly decline, aggregate cost of funds decreased in second quarter 2004. However, the pace of decline has slowed, reflecting the rise in short-term interest rates (See Chart 4). Banks typically delay increases in deposit rates following increases in market rates, but continued reductions in funding costs is likely ending.
- The trend of increasing funding costs likely will be more pronounced in Puerto Rico and USVI than in the mainland U.S. because of greater reliance on market-rate sensitive, non-core funding (See Chart 5). Insured institutions headquartered in Puerto Rico and USVI rely more extensively on funding such as brokered deposits and borrowings, which are typically more responsive to changes in market rates.

Credit quality improved in the past year, after weakening following the U.S. recession.

- Average loan delinquency rates among FDIC-insured institutions headquartered in Puerto Rico and USVI declined in second quarter 2004, continuing reductions of the past two years (See Chart 6). Strengthening in credit quality has reflected improvement in employment conditions in Puerto Rico and USVI since the end of the U.S. recession.
- However, loan delinquency and charge-off rates remain higher than in the mainland U.S. If recent waning of employment growth continues, credit quality may weaken.

Chart 4: Funding Cost Reductions May Be Ending

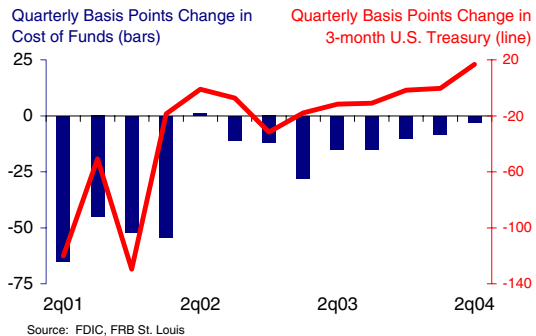


Chart 5: Insured Institutions Headquartered in Puerto Rico and USVI Rely on Non-core Funding

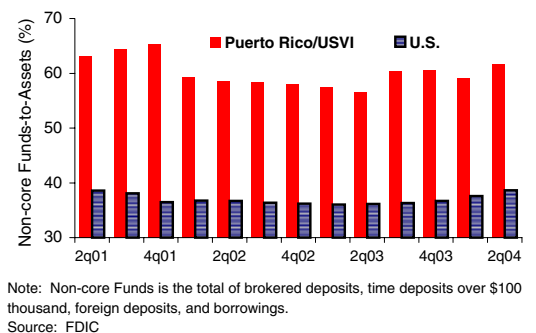
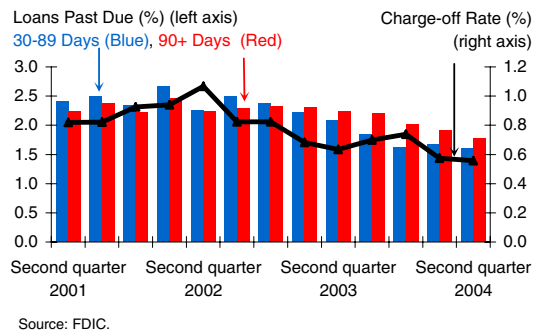


Chart 6: Loan Quality Continued to Improve in Second Quarter 2004



¹Includes FDIC-insured institutions headquartered in Puerto Rico and the U.S. Virgin Islands, excluding banks less than three years old and credit card banks, unless otherwise noted.

Puerto Rico at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	12	13	14	14	15
Total Assets (in thousands)	85,830,880	72,158,204	64,187,429	53,239,840	48,411,273
New Institutions (# < 3 years)	0	0	0	1	1
New Institutions (# < 9 years)	1	3	3	3	3
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	6.87	6.64	5.99	6.81	6.74
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	4.38%	5.53%	5.12%	5.11%	5.05%
Past-Due and Nonaccrual >= 5%	5	7	7	7	8
ALLL/Total Loans (median %)	1.35%	1.53%	1.27%	1.26%	1.24%
ALLL/Noncurrent Loans (median multiple)	0.51	0.46	0.39	0.44	0.40
Net Loan Losses/Loans (aggregate)	0.56%	0.66%	1.00%	0.97%	0.92%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	1	0	3	1	1
Percent Unprofitable	8.33%	0.00%	21.43%	7.14%	6.67%
Return on Assets (median %)	1.46	1.15	1.01	0.92	0.83
25th Percentile	0.99	0.92	0.36	0.68	0.68
Net Interest Margin (median %)	3.21%	3.09%	3.52%	3.76%	4.18%
Yield on Earning Assets (median)	4.95%	5.70%	6.56%	8.03%	8.55%
Cost of Funding Earning Assets (median)	1.89%	2.56%	3.39%	4.82%	4.77%
Provisions to Avg. Assets (median)	0.36%	0.29%	0.32%	0.35%	0.34%
Noninterest Income to Avg. Assets (median)	0.59%	0.55%	0.47%	0.56%	0.63%
Overhead to Avg. Assets (median)	1.98%	2.14%	2.43%	2.29%	2.81%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	94.15%	92.14%	89.38%	91.59%	94.87%
Loans to Assets (median %)	54.06%	52.40%	54.78%	59.76%	60.15%
Brokered Deposits (# of Institutions)	9	10	11	11	11
Bro. Deps./Assets (median for above inst.)	11.69%	12.65%	14.76%	5.42%	7.38%
Noncore Funding to Assets (median)	58.06%	61.04%	61.76%	59.60%	60.30%
Core Funding to Assets (median)	28.41%	26.66%	27.08%	31.74%	30.88%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	11	12	13	13	13
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	1
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
San Juan-Bayamon PR PMSA	9	72,583,481	75.00%	84.57%	
No MSA	2	167,008	16.67%	0.19%	
Mayaguez PR	1	13,080,391	8.33%	15.24%	